

The Fair Tax

Early in this session of Congress a bill will be introduced in the House by Representative John Linder, Republican of Georgia, and its companion in the upper chamber of Congress by Senator Saxby Chambliss, also Republican of Georgia. The proposed legislation has come to be known as *The Fair Tax*. During the recent presidential campaign Senator John Kerry, when asked about it at a rally, called *The Fair Tax* a terrible idea and a disaster for the working poor. A losing Senate candidate from South Carolina and many Democrats echoed this assessment.

In my opinion *The Fair Tax* has very little chance of passage. This despite the fact that *The Fair Tax* would be a boon to all Americans, young and old, poor and wealthy, minority and majority, liberal and conservative, Democrat and Republican . . . with two exceptions. First, each and every employee of the Internal Revenue Service (IRS) would be pink-slipped. Second, congressmen and senators who just love robbing Peter to pay Paul; who just love giving subsidies (welfare) to some companies and industries; who just love giving subsidies (welfare) to some groups of people by taxing the bejeebers out of others; these elected members of Congress will lose a lot of power to control Americans' everyday lives and decisions. They won't want to relinquish this incentive power to acquire campaign contributions one bit. And I guess the final reason for my pessimism is that the vast majority of Americans are woefully ignorant of basic economics.

But bear with me, play along, take just a few minutes, check it out. Let

me try to explain. Join me in pushing back the frontiers of ignorance.

The Fair Tax would be a 23% retail sales tax on all new (not used) goods and services (except education). Replaced would be all current federal taxes. Gone would be federal income taxes (with repeal of the 16th Amendment to the U.S. *Constitution*), Social Security taxes, Medicare taxes, gasoline taxes, liquor and cigarette taxes, excise taxes, corporate income taxes, estate/death taxes, etc. The reason for the 23% is to make the proposed change "revenue neutral". I might want to cut the amount of money the government gets, but that's another fight. It doesn't help when one combines issues. Incidentally, economists are now suggesting that a little less than 20% rather than 23% might be more accurate.

"Hey dude", you say, "I can't afford a 20-ish percent federal sales tax on top of the state sales tax I'm already paying. Are you nuts? Are you smoking something?" Hang on there Bubbas and Bubbettes. Lemme 'splain. First, you've got a bigger paycheck now. No income tax, no Medicare tax, No Social Security tax. Are you adding that up? Second, it should take but a very few months for prices to come down enough to offset the sales tax.

For just one example, lets say that you and some other sharp thinkers pause and think, "Hey, Ford's suppliers, Ford itself, Ford's car haulers and Ford's dealers all just got rid of all those business taxes along the whole chain and so their costs are greatly reduced [Note: it would be more than 20%]. I wanna lower price. I'm not buying 'til car prices come down." Because you demand it, and because it's a competitive marketplace, that new Ford's gonna get a lot cheaper.

Let's check the scoreboard to see how we're doing so far with this supposed *Fair Tax*. First we got a big raise because we're no longer paying income, Social Security and Medicare taxes. Second, though we've added a hefty sales tax, prices come down enough to completely offset that tax. Hmmmmmm. Shhhh. I think I'm coming out like a bandit. And that's before we talk about leaving an inheritance for the kids and grandkids. What's not to like?

Uh oh. Woops. I forgot. It's time for the *nothing's-ever-fair-wool-sock-and-Birkenstock-wearing-long-hair-and-pony-tail-socialist-intelligentsia-chronic-whiner crowd* to weigh in with . . . "What about the poor? A sales tax is a regressive tax and hurts those at the bottom of the economic ladder, blah blah blah blah." Jeez, don't get me started.

The Fair Tax includes a monthly *prebate* component. On the premise that we don't want a tax on "the basic necessities of life" all Americans residing within USA borders (and thus paying sales taxes) will get a credit at the beginning of each month equal to the sales tax one would pay based on spending at the poverty line. Let's say that the poverty line is federally set at \$15,670 per annum for a family of three. Every family of three (Joe Hobo's and Bill Gates' alike) would receive an electronic transfer payment from the federal government in the amount of \$300 ($\$15,670 / 12 \times .23$) each and every month. Smaller families would get less, larger more. Thus, poverty-level Americans would, in effect, pay no sales tax!

We'd be remiss if we didn't check in with the *chronologically-gifted* set. With AARP lobbying for them,

their voice has gotten pretty loud. The big complaint from these codgers is that they paid income taxes for decades and are now ready to spend it. It's not fair. These geezers (I'm one of them.) conveniently forget that all of those IRAs, 401Ks, 403Bs, etc., were "tax deferred". What a windfall. With *The Fair Tax* they'll now never have to pay those taxes from decades past.

Can we check the scoreboard again? Who wins? Young and old, poor and rich, men and women, married and not, heterosexual and homosexual, employer and employee, Dinks (dual-income no kids) and Silks (single-income lots of kids), black and white and brown. Billions of dollars will be saved on tax preparation and filing . . . and, yes, the association of tax accountants supports *The Fair Tax*.

Who loses? Pink-slipped IRS employees, about 130,000 of them. No comment. Senators and congressmen. Please write to yours now and make clear that a vote against *The Fair Tax* is a vote against you and against all of your neighbors and against almost all Americans and against America itself . . . and that you won't tolerate that. And finally there's the *class-warfare* pimps. They'll be outraged because the rich didn't get hurt even though the poor got helped.

One last thing: There's been gobs of political and whiner rhetoric lately about companies sending American jobs abroad. It's garbage because job *insourcing* actually exceeds *outsourcing* many times over. Think of the Honda, Toyota, Mercedes, BMW, etc., plants here just for starters. Now consider that we're talking about eliminating all taxes on businesses in favor of *The Fair Tax*. That would make the USA a much more attractive

production venue than previously and *versus* many other countries around the globe. And American products would become much more competitive abroad. With *The Fair Tax* I would predict lots of new *insourcing* and greater growth of our economy. Harvard economist Dr. Dale Jorgenson expects expansion of the U.S. economy by 25-33% *versus* continuing with the tax *status quo*.

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A postscript:

With all that is great about *The Fair Tax* there are – as with anything – unintended consequences. Let me suggest just one I think likely.

Consumers may rethink their romance with buying new. A new car would carry a 20-ish percent sales tax atop the price; a slightly used one would not. Boats, motorhomes, houses, televisions and other appliances? Same.

Now, when my hedge trimmer blade gets too dull, it's cheaper to buy a new trimmer than get the old blade sharpened. Indeed, for most Americans most appliances have become “disposables”. We don't repair; we replace.

Consumers with their collective power in the marketplace may demand more used, less new, more maintaining and repairing, less disposing and replacing. There'll be more mechanic and technician jobs and businesses. Gosh, even the *envirofascists* might soften their scowls over this. No, probably not.